

Congress of the United States
CONGRESSIONAL OVERSIGHT PANEL

Opening Statement of Richard Neiman

Congressional Oversight Panel Field Hearing on Commercial Real Estate

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Good morning. I am pleased to be here in Atlanta to continue the Panel's commitment to issues around commercial real estate. It has been six months since our first hearing on this area, which was held in New York City, and it is the right time to revisit these critical issues.

New York has a unique concentration of commercial properties, but as the recession has lingered, regional business hubs such as Atlanta are under increasing pressure as well. Atlanta in particular experienced a surge in commercial real estate development during the boom years. Now, high vacancy rates for office space here are compounding the fallout from the financial crisis.

Reevaluating the growing risks in this sector is a top priority, and that is why commercial real estate is the subject of the Panel's first hearing in the New Year. Commercial real estate is not a boutique lending niche, of importance only to a subset of lenders and borrowers. Commercial real estate impacts every community on multiple levels, so understanding this sector is an important aspect of stabilizing our national economy.

When people think of commercial real estate, they often just think of properties such as office buildings, shopping malls, and hotels. But commercial real estate also includes multifamily and affordable housing units, from rental apartment complexes to condos. This is the financing that provides accommodation for jobs, for conducting business, and for living.

I know that we will hear a lot today about the risks that troubled commercial real estate loans present for bank balance sheets, and that is certainly a critical consideration, particularly for me as a bank regulator. But financial stability begins and ends with the well-being of our neighborhoods and families and national economy. It is the health of our communities that is our ultimate concern.

For multifamily buildings in particular, there is a concern that the property's condition will deteriorate as owners' cash flow is diverted to making debt payments. Further, tenants who pay their rent on time can find themselves homeless, because their landlord defaulted on the underlying commercial mortgage.

In New York, we are developing progressive solutions that could serve as models for stabilizing multifamily housing nationwide. Foremost is Governor Paterson's 2009 mortgage reform legislation, which provides new protections for renters when their landlord is in foreclosure. Our state housing finance agency is also developing a pilot program to convert unused luxury units to affordable housing.

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There is still another way in which commercial real estate intersects with people's daily lives, and that is in the impact on community banks. Community banks not only provide a proportionately large share of commercial real estate financing, they also are key sources of credit to small businesses, an engine of growth for job creation.

We have seen growing numbers of smaller banks fail recently, and anticipate this trend will continue. These small bank failures, which could be increasingly driven by commercial real estate defaults, create holes in our communities. Where there once was a flourishing center for responsible hometown lending, there can be a vacuum. This means less credit may be available for small businesses, as well as for consumer lending.

The meltdown in residential subprime mortgages caught many by surprise. But with commercial real estate, we have more advance warning of the scope of the developing problem.

It is my hope and intent that today's hearing will not only assess the magnitude of the problem, but will also explore potential market-based and public policy solutions.

I look forward to your testimony this morning, and to your innovative ideas.